Borsa Italiana

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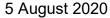| Mittente del comunicato	:	BORSA ITALIANA
Societa' oggetto dell'Avviso	:	--
Oggetto	:	MiFIR / MiFID II: METHODOLOGY FOR THE CONVERSION OF SSTI AND LIS THRESHOLDS FROM NOTIONAL VALUE INTO LOTS

Testo del comunicato

See the annex

Disposizioni della Borsa

To: Borsa Italiana market participants

Borsa Italiana – Derivatives markets

MiFIR / MiFID II: METHODOLOGY FOR THE CONVERSION OF SSTI AND LIS THRESHOLDS FROM NOTIONAL VALUE INTO LOTS

Dear Customer,

Commission Delegated Regulation 2017/583 (formerly RTS 2 of MiFIR/MiFID II) determines the pre- and post-trade LIS (large-in-scale) and SSTI (size specific to the instrument) thresholds for derivatives in monetary (notional) value. Borsa Italiana, as permitted by Article 13(9) of RTS 2, converts notional value thresholds into a corresponding number of lots. The calculated values are used by Borsa Italiana, for liquid derivatives contracts, in order to determine the permitted negotiated transactions in accordance with MiFIR pre/post-trade transparency waivers[1].

As required by question #19 of ESMA Q&A on MiFID II and MiFIR transparency topics dated 5 December 2019, and updated on 29 May 2020, Borsa Italiana is publishing the methodology to be used to convert notional value thresholds into a corresponding number of lots.

This methodology will be used starting from the next update of the MiFIR / MiFID II annual transparency calculations for derivatives, that will be effective starting from 15 September 2020[2].

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[1] For additional information regarding (a) order types benefiting from a MiFIR pre-trade transparency waiver, and (b) available waivers to post-trade transparency, please refer to the IDEM Guide to the Trading System: https://www.borsaitaliana.it/borsaitaliana/gestione-mercati/migrazioneidem/migrazioneidem.en.htm

[2] ESMA's notice is available at the following link: https://www.esma.europa.eu/press-news/esma-news/esma-postpones-publication-dates-annual-non-equity-transparency-calculations.

Market Notice

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Methodology for the conversion of SSTI and LIS thresholds from notional value into lots

In order to convert LIS and SSTI notional value thresholds into lot, the following methodology is used:

1. a unique LIS threshold in lots (the "**Threshold**") is determined for each group of derivatives (a "**Group**"). A Group includes all derivatives instruments (series) that:

    − for equity derivatives, belong to the same sub-asset class of derivatives, as defined by RTS 2 and having the same underlying instrument;

    − for commodity derivatives, belong to the same sub-asset class of derivatives and segmentation criteria, as defined by RTS 2.

   The list of available Groups is provided in Annex I.

2. The calculated Threshold is applied to all series in the same Group, including those series whose lot size has been adjusted following a corporate action.

3. Thresholds for all Groups are calculated once per year and are made public within 15 working days after the day when ESMA publishes the annual transparency calculations for derivatives (the "**ESMA Publication Day**"). The conversion is calculated using the average of the closing price of the underlying in the 12 months of the calendar year preceding the ESMA Publication Day.

4. Thresholds are maintained until the application of the results of the next calculations performed in accordance with Article 13(17) of RTS 2. Thresholds may be modified during the course of the year in the case of both pre-determined ordinary and extraordinary revisions of the lot sizes of the underlying derivative contracts communicated by Borsa Italiana. The results of any revision will be published by Borsa Italiana by Market Notice.

5. For Groups where the notional value is not expressed in Euros, before applying the conversion formulas described in point 6, ESMA thresholds are converted to the notional value currency at the ECB official exchange rate on the ESMA Publication Day.

6. Thresholds are determined by applying the formulas indicated in question #19 of ESMA Q&A on MiFID II and MiFIR transparency topics dated 29 May 2020 and reported in Annex II, with the specifications described in paragraphs from 7 to 10.

7. For equity derivatives that are not index dividend futures or dividend stock futures:

    − when the underlying is available for trading on MTA, the "closing price" is defined as the closing auction price for the instrument. In case of unavailability of the closing price, the methodology described in Art. 4.3.9 of Borsa Italiana Rules is used;

    − for equity underlyings that are not traded on MTA, the "closing price" is derived from the most relevant market in term of liquidity ("MRMTL") as indicated by ESMA in the FITRS database;

    − for indices, the "closing price" is the last published index value for the trading day;

– for options: the "at-the-money" option strike price is the closest (as available on the ESMA Publication Day) to the average closing price determined in accordance with point 3.

8. For index dividend and equity dividend futures, the ESMA Q&A methodology for futures contracts is used, where the closing price of the underlying is replaced by the reference price of the next expiry of the future contract expired, as defined in Art. 5.3.6 of Borsa Italiana's rules.

9. As concerns liquid contracts on power futures (IDEX) and durum wheat futures (Agrex):

– the ESMA Q&A methodology for futures contracts is used, where the closing price of the underlying is replaced by the reference price of the future contract itself, as defined in Art. 5.3.6 of Borsa Italiana's rules. The average price in the previous 12 months is calculated at the arithmetical average of the daily reference prices for all futures belonging the same Group across the whole period.

10. As concerns power futures (IDEX):

– the lot size is calculated as the product between the unit of trading for IDEX product (1MW) and the standard number of hours in the delivery period as defined by ESMA Q&A on commodity derivatives topics dated (section "Position Limits", question 2), and reported in Annex I.

The minimum quantity for:

• orders to execute a negotiated transaction, including large-in-scale legs of package transactions;
• deferred publication of an executed trade;

may be defined by Borsa Italiana at a value that is equal or higher than the Thresholds determined according to this conversion methodology.

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Annex I: Groups of derivatives, according to classifications in Annex III of RTS 2.

<u>Equity derivatives:</u>

Sub-asset class of derivatives	Underlying	Group
Index futures	FTSE MIB Index	Futures on FTSE MIB index (includes FIB and miniFIB)
Index futures	FTSE Italia Mid Cap PIR Total Return Index	Futures on FTSE Italia Mid Cap PIR Total Return Index
Index options	FTSE MIB Index	Options on FTSE MIB index
Index dividend futures	FTSE MIB Dividend index	Futures on FTSE MIB Dividend index
Equity futures	..	1 Group for each underlying share (by ISIN)
Equity options	..	1 Group for each underlying share (by ISIN)
Equity dividend futures	..	1 Group for each underlying dividend (by ISIN)

<u>Commodity derivatives:</u>

Sub asset class of derivatives: Energy commodity futures/forwards
Segmentation criterion #1 (energy type): Electricity
Segmentation criterion #2 (underlying energy): NA
Segmentation criterion #3 (notional currency): Euro
Segmentation criterion #5 (delivery/cash settlement location): 10YIT-GRTN-----B

Segmentation criterion #4 (load type)	Segmentation criterion #6 (time to maturity)	Group	Standard number of hours in the delivery period	Lot size
Baseload	1m-1y	IDEX monthly baseload futures	720 h (30 d)	720 MWh
		IDEX quarterly baseload futures	2160 h (90 d)	2,160 MWh
	1m-1y, or 1y-2y[2]	IDEX yearly baseload futures	8,760 h (365 d)	8,760 MWh
Peakload[2]	1m-1y	IDEX monthly peakload futures[3]	264 h (20 d)	264 MWh
		IDEX quarterly peakload futures	792 h (60 d)	792 MWh
		IDEX yearly peakload futures	3,168 h (240 d)	3,168 MWh

Sub asset class of derivatives: Agricultural commodity futures/forwards
Segmentation criterion #1 (underlying agricultural commodity): Durum wheat[2]
Segmentation criterion #2 (notional currency): Euro

Segmentation criterion #3 (time to maturity)	Group
1y-2y	Agrex futures

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[3] Market segment currently classified as "Not liquid".

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Annex II: Formulas for the conversion of the LIS/SSTI thresholds into lots

From ESMA Q&A on transparency topics dated 29.5.2020, section "Non equity transparency", question 19

Contract type	*Formula for the conversion of the LIS/SSTI thresholds into lots*
Futures/forwards	$$\text{Thresholds in lots} = \frac{\text{Notional value of the threshold}}{\text{Lot size} * \text{Arithmetical average closing price of the underlying}}$$ where the notional value is the notional value in the trading currency of the derivative contract, the lot size is the contract size (price multiplier in the case of index futures/forwards) determined by the trading venue for that derivative contract and the arithmetical average closing price of the underlying is determined by the value resulting from the average of the available closing prices of the underlying (or, when not available, the reference value determined by the relevant market of the underlying) during the 12-months of the previous year, or in the case of a newly admitted to trading underlying instrument or a corporate actions, the available actual or theoretical underlying price(s) taking account the corporate action adjustment. In all cases, the threshold in lots resulting from the division shall be rounded to the minimum tradable number of lots for orders. The value can be rounded up or down, but the type of rounding shall be determined by the end-value that is closer to the pre-rounding value.
Options	$$\text{Thresholds in lots} = \frac{\text{Notional value of the threshold}}{\text{Lot size} * \text{Strike price}}$$ where the notional value is the notional value in the trading currency of the derivative contract, the lot size is the contract size (price multiplier in the case of index options) determined by the trading venue for that derivative contract and the strike price is the strike price of the at-the-money option. The at-the-money option should be determined on the basis of the arithmetical average of the closing price of its underlying instrument. The latter is the value resulting from the arithmetical average of the available closing prices of the underlying instrument of the option (or, when not available, the reference value determined by the relevant market of the underlying) during the 12-months of the previous year, or in the case of a newly admitted to trading underlying instrument or a corporate action, the available actual or theoretical underlying price(s), taking into account the corporate action adjustment. In the case of an option whose underlying is another derivative contract (e.g. a future or a forward contract), the at-the-money option shall be determined on the basis of the arithmetical average of the closing price of the underlying instrument of the derivative contract underlying the option. In all cases, the threshold in lots resulting from the division shall be rounded to the minimum tradable number of lots for orders. The value can be rounded up or down, but the type of rounding shall be determined by the end-value that is closer to the pre-rounding value.
Other derivatives	No need for a formula/no formula provided for the time being.